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## Research Update:

# City of Windsor Ratings Affirmed At 'AA'; Outlook Remains Stable

**Primary Credit Analyst:**

Siddharth R Maniyar, Toronto (1) 416-507-2567; siddharth.maniyar@spglobal.com

**Secondary Contact:**

Bhavini Patel, CFA, Toronto (1) 416-507-2558; bhavini.patel@spglobal.com

**Research Contributor:**

Ekta Bhayani, CRISIL Global Analytical Center, an S&P Global Ratings affiliate, Mumbai

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## Research Update:

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## Overview

- We expect the City of Windsor's track record of stable fiscal performance will continue allowing the city to proceed with its capital agenda while maintaining robust liquidity and minimal debt.
- As a result, we are affirming our 'AA' long-term issuer credit and senior unsecured debt ratings on Windsor.
- The stable outlook reflects our expectations that, in the next two years, the city will maintain robust liquidity, hold its tax-supported debt well below 30% of operating revenues, and post healthy budgetary results.

## Rating Action

On Feb. 14, 2019, S&P Global Ratings affirmed its 'AA' long-term issuer credit and senior unsecured debt ratings on the City of Windsor, in the Province of Ontario. The outlook is stable.

## Outlook

The stable outlook reflects our expectations that, in the next two years, the city's healthy budgetary results will help Windsor maintain a robust liquidity position and fund its capital projects as it continues to pay down its tax-supported debt burden.

## Upside scenario

We could take a positive rating action in the next two years if revenue flexibility improves with higher inflows of property tax revenues, fees, and other sources of revenue, allowing the city to address its increasing infrastructure needs while maintaining focus on long-term financial sustainability; and the economy continues to stabilize following the ratification of the United States-Mexico-Canada Agreement.

## Downside scenario

Although we view it as unlikely in the next two years, weaker economic performance causing revenue growth to persistently lag that of expenditures, resulting in sustained after-capital deficits of more than 5% of total revenues, and increasing capital needs affecting reserve levels and medium-term funding availability negatively affecting the city's liquidity

profile, could lead to a downgrade.

## **Rationale**

Windsor is in the southernmost part of Canada and benefits from access to major transport routes and proximity to the U.S. While we believe the city's economy is strong, its output and labor force carry significant exposure to the manufacturing sector, in particular the auto industry. We have updated our base-case scenario for Windsor and extended our forecast horizon through 2021. We believe that Windsor's economic growth and prudent management will assist the city to maintain healthy budgetary performance and robust liquidity. At the same time, spending mandates, increasing maintenance works stemming from the widening infrastructure gap, and political and economic factors will continue to constrain budgetary flexibility.

### **High institutional stability and a prudent financial management team support Windsor's creditworthiness.**

We believe Canadian municipalities benefit from a very predictable and well-balanced local and regional government framework that has demonstrated a high degree of institutional stability. Although provincial governments mandate a significant proportion of municipal spending, they also provide operating fund transfers and impose fiscal restraint through legislative requirements to pass balanced operating budgets. Municipalities generally have the ability to match expenditures well with revenues, except for capital spending, which can be intensive. Any operating surpluses typically fund capital expenditures and future liabilities (such as postemployment obligations and landfill closure costs) through reserve contributions.

Following the recent election, there has been significant turnover in city council. However, we do not project major policy deviations under the new administration. We believe Windsor exhibits strong financial management, with a relatively stable and highly experienced management team. The city benefits from a generally broad political consensus on fiscal policies, in particular levy increases, and the management team has demonstrated a strong ability to find cost efficiencies and alternative delivery methods to adhere to the council's fiscal decisions. The administration follows prudent and well-defined financial policies and a formal long-term plan with a focus on financial sustainability and reduced reliance on debt funding. Windsor's very prudent and risk-averse debt policy has allowed it to reduce debt levels for the past several years and to increase its focus on detailed cash flow planning to support operations. The operating and multiyear capital budgets, which we view as realistic, are timely and reflect the goals in the city's long-term financial plan.

We estimate that Windsor's GDP per capita is in line with the 2015-2017 provincial average of about US\$44,000, based on the city's income levels and the local industries' higher value-added. While Windsor continues to focus on diversifying its economy, mainly in education, health and life sciences,

tourism, government services, and other manufacturing subsectors, we believe auto industry problems could cause considerable economic distress. Despite Windsor's efforts to focus on population retention and job creation, attracting and retaining a skilled workforce remains an issue for the city.

**Operating balances are healthy, but infrastructure projects will keep after-capital results in a minor deficit.**

We expect Windsor's budgetary performance to continue to be stable and strong. We estimate the city will generate operating balances averaging about 11% of operating revenue from 2017-2021. Operating surpluses will partially finance Windsor's capital spending, which we project will average about 14% of total spending, in 2019-2021, keeping modest negative after-capital balances at about 1.2% during the same period. The city's capital plan includes spending for projects related to road construction, and sewer and transportation infrastructure.

Windsor benefits from stable government funding while maintaining high modifiable revenues of more than 80% of operating revenues. Although the city passed consecutive levy increases in the past two budgets, we believe that political and economic constraints might limit the degree to which Windsor will employ significant increases in property taxes, utility rates, and user fees. A track record of passing sustainable levy increases, especially by the new council, could lead to improvement in the city's ability to increase own-source revenues. In addition, legislative requirements and Windsor's maintenance-heavy capital plan limit the ability to meaningfully cut expenditures, in our view.

We expect the city to continue repaying its debt and forecast its tax-supported debt burden to decline to about 8% of operating revenues by 2021 from nearly 13% in 2017. At the same time, we expect interest costs to remain very modest at less than 1% of operating revenues in the outlook horizon. Windsor's postemployment obligations continue to constrain the overall debt profile, although the city has addressed them prospectively for all employee groups. Total postemployment obligations represented about 72% of operating revenues at year-end 2017.

Windsor also has robust liquidity. By our calculations, the city's average free cash and liquid assets will total about C\$295 million in the next 12 months and represent more than 25x the estimated debt service. Similar to that of its domestic peers, Windsor's access to external liquidity is satisfactory, in our view.

Contingent liabilities are low, in our opinion. The city has exposure to the obligations of its major government-related entities, Windsor Canada Utilities Ltd. and Windsor Utilities Commission, and is liable for 50% of Essex-Windsor Solid Waste Authority's debt. Together, these entities' debt accounts for about 20% of operating revenues. We believe Windsor's exposure and likelihood that it would provide timely and sufficient extraordinary support to the entities in the event of financial distress are limited, reflecting the

entities' ability to raise rates and fees to recover losses. Windsor's other contingent liabilities are low. Standard employee benefits and obligations account for about 13% of operating revenues.

## Key Statistics

Table 1

City of Windsor -- Selected Indicators						
	--Fiscal year ended Dec. 31--					
(Mil. C\$)	2016	2017	2018bc	2019bc	2020bc	2021bc
Operating revenues	615.64	658.87	665.61	672.47	679.12	685.88
Operating expenditures	563.69	561.50	581.17	596.62	612.92	629.76
Operating balance	51.95	97.37	84.44	75.85	66.20	56.12
Operating balance (% of operating revenues)	8.44	14.78	12.69	11.28	9.75	8.18
Capital revenues	32.88	31.48	23.33	24.22	25.06	25.30
Capital expenditures	95.39	124.02	93.32	96.87	100.24	101.20
Balance after capital accounts	(10.56)	4.83	14.45	3.20	(8.98)	(19.78)
Balance after capital accounts (% of total revenues)	(1.63)	0.70	2.10	0.46	(1.27)	(2.78)
Debt repaid	6.31	6.75	7.21	7.67	8.11	8.62
Gross borrowings	0.00	0.00	0.00	0.00	0.00	0.00
Balance after borrowings	(16.87)	(1.91)	7.25	(4.47)	(17.08)	(28.40)
Modifiable revenues (% of operating revenues)	83.01	83.24	83.14	83.03	82.91	82.80
Capital expenditures (% of total expenditures)	14.47	18.09	13.84	13.97	14.06	13.85
Direct debt (outstanding at year-end)	91.90	85.15	77.94	70.27	62.16	53.54
Direct debt (% of operating revenues)	14.93	12.92	11.71	10.45	9.15	7.81
Tax-supported debt (outstanding at year-end)	91.90	85.15	77.94	70.27	62.16	53.54
Tax-supported debt (% of consolidated operating revenues)	14.93	12.92	11.71	10.45	9.15	7.81
Interest (% of operating revenues)	0.78	0.67	0.61	0.56	0.49	0.43
National GDP per capita (C\$)	56,129	58,440	60,163	61,966	63,704	65,542

Note: The data and ratios above result in part from S&P Global Ratings' own calculations, drawing on national as well as international sources, reflecting S&P Global Ratings' independent view on the timeliness, coverage, accuracy, credibility, and usability of available information. The main sources are the financial statements and budgets, as provided by the issuer. bc--Base case reflects S&P Global Ratings' expectations of the most likely scenario. dc--Downside case represents some but not all aspects of S&P Global Ratings' scenarios that could be consistent with a downgrade. uc--Upside case represents some but not all aspects of S&P Global Ratings' scenarios that could be consistent with an upgrade. bc--Base case.

## Ratings Score Snapshot

Table 2

City of Windsor -- Ratings Score Snapshot	
Key rating factor	Assessment
Institutional Framework	Very predictable and well-balanced
Economy	Strong

**Table 2**

**City of Windsor -- Ratings Score Snapshot (cont.)**

<b>Key rating factor</b>	<b>Assessment</b>
Financial Management	Strong
Budgetary Flexibility	Weak
Budgetary Performance	Strong
Liquidity	Exceptional
Debt Burden	Low
Contingent Liabilities	Low

Note: S&P Global Ratings bases its ratings on local and regional governments on eight main rating factors listed in the table. Section A of S&P Global Ratings' "Methodology For Rating Non-U.S. Local And Regional Governments" summarizes how the eight factors are combined to derive the foreign currency rating on the government.

## Key Sovereign Statistics

Sovereign Risk Indicators, Dec. 13, 2018. Interactive version available at <http://www.spratings.com/sri>

## Related Criteria

- Criteria - Governments - International Public Finance: Methodology For Rating Non-U.S. Local And Regional Governments, June 30, 2014
- Criteria - Governments - International Public Finance: Methodology And Assumptions For Analyzing The Liquidity Of Non-U.S. Local And Regional Governments And Related Entities And For Rating Their Commercial Paper Programs, Oct. 15, 2009
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

In accordance with our relevant policies and procedures, the Rating Committee was composed of analysts that are qualified to vote in the committee, with sufficient experience to convey the appropriate level of knowledge and understanding of the methodology applicable (see 'Related Criteria And Research'). At the onset of the committee, the chair confirmed that the information provided to the Rating Committee by the primary analyst had been distributed in a timely manner and was sufficient for Committee members to make an informed decision. After the primary analyst gave opening remarks and explained the recommendation, the Committee discussed key rating factors and critical issues in accordance with the relevant criteria. Qualitative and quantitative risk factors were considered and discussed, looking at track-record and forecasts. The committee's assessment of the key rating factors is reflected in the Ratings Score Snapshot above. The chair ensured every voting member was given the opportunity to articulate his/her opinion. The chair or designee reviewed the draft report to ensure consistency with the Committee decision. The views and the decision of the rating committee are summarized in the above rationale and outlook. The weighting of all rating

factors is described in the methodology used in this rating action (see 'Related Criteria And Research').

## **Ratings List**

Ratings Affirmed

Windsor (City of)

Issuer credit rating

AA/Stable/--

Senior unsecured

AA

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at [www.standardandpoors.com](http://www.standardandpoors.com) for further information. Complete ratings information is available to subscribers of RatingsDirect at [www.capitaliq.com](http://www.capitaliq.com). All ratings affected by this rating action can be found on S&P Global Ratings' public website at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column.

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